Evolution & Organization Structure of the S1DCs
The success of the program of industrialization depends on the availability of adequate capital for a variety of industries. Judicious flow of credit towards capital investment needs depends largely on a sound and conducive structure of the financial institution. To be sound in the matters of funds, the financial institution should have a well-planned and healthy organisation structure for mobilising more resources and their utilisation in effective ways for generation and promotion of economic activities. Large percentages of proposed projects rejected on grounds of economic and technical viability in the earlier stages of the working of several development banks, have promoted some observers to challenge the doctrine of capital shortage in developing economies - the very basis of a development bank in such countries.\(^1\) The study of the constitution and organisation structure of the SIDCs are important as they are the prerequisite factors on which their effective functioning hinges on. All these factors are discussed in this chapter.

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Evolution

The industries were concentrated mainly in urban areas before the dawn of Independence because of various reasons. Due to some advantages the industries were confined to a few urban pockets, for example, cotton, Jute textiles for which the country had exceptional natural advantages. Unfortunately, the cotton textiles units were owned by urban families and the Jute textiles units and Tea gardens were developed and owned by foreign entrepreneurs. After independence the range of industrial goods produced in the country looked quite impressive. This performance in terms of production in relation to the country’s population was insignificant. This led to the awareness of the need for higher production and productivity through the means of industrialisation and thereon to overall economic development of India. It was in response to this long felt need that the Industrial Finance Corporation of India (IFCI) was established in 1948. Right from the beginning of independence it had chosen the path of planned economic development in a mixed economy where both the public and private sectors have an important role to play. To put industrialisation in the right directions, the Industrial policy of India
was framed in 1948. This was periodically reviewed and revised, and improved in the light of the experience gained, encountering of new problems and in the context of overall strategies for industrial development, with reference to certain broad areas. These are mineral oils, iron & steel, ship buildings, mining of major and strategic minerals on the one hand and certain items of manufacture are exclusively preserved for the small scale sector on the other. In between these two is the residual sector which was again divided into core and non-core sectors. In the residual sector, as a matter of policy, preference was to be given to new and small entrepreneurs as well as to industrial co-operatives.

The development of industries and their structure at any point of time is determined by the 'strategy of planning' as laid down by the planning commission. The licensing of industrial units is one of the norms of strategic planning which is under the control of Ministry of Industries. However, financing of such units is left to the discretion of the financial institutions. Thus, a plan is to be implemented with several strategies for the development of industries. Hence,
the industrial licensing authority (Government of India) and the financial institutions have a greater role to play for the emergence of the structure of industry, ownership pattern of capital, geographical disposal of industries and subsequent benefits of industrial development.

Growth of Development Banking

It is in the inadequacy of investment capital that the 'raison d'être' of establishment of development banks is to be found. In India too the need for 'Development Banks! arose immediately after the attainment of Independence to fill the existing gaps in the capital market. Prior to Independence the capital market was not developed well enough to support a programme of large scale development. The Indian capital market was ill equipped to meet the needs of long-term industrial finance. Though the country had a network of commercial banks, which were working on the British Banking Model, they had traditionally confined themselves to financing

working capital requirements of trade and industry. 
Hence, the need for specialised term lending
institutions for meeting medium and long-term capital
needs of industry through loans, debentures and equity
was realised by the authorities and effective steps
were taken in this regard soon after Independence.³
Financial institutions act as conduits through which
scattered savings are first aggregated and then dis-
aggregated among many business firms. This is why
financial institutions are regarded as "gap fillers."⁴
This made it necessary to setup financial institutions
to ensure adequate flow of assistance to industrial
projects.

Building up of a structure for financial
institutions began with the establishment of IFCI in
1948. It aimed at making medium and long term capital
quickly available to industrial concerns, particularly
in those circumstances in which normal banking

⁴. Srivastava, R.M., "Management of Indian Financial
Institutions", Himalaya Publishing House,
Bombay, p.8.
accommodations were inappropriate or a recourse to
capital issue channel was impracticable. In view
of the immensity of the task and the vast size of
the country, it was also decided to setup Regional
Development Banks to cater to the needs of the small
and medium enterprises. Traditionally the banks in
India have been suppliers of short-term credit. The
committee on Finances for the private sector, popularly
known as the A.O.Shorof Committee, appointed by the
Reserve Bank of India in 1953 did not favour any radical
departure from the existing lending practices. In 1951,
the Indian Parliament passed the State Financial
Corporations Act. At present, 16 State Financial
Corporations (SFCs) are in operation granting financial
assistance to public limited companies, private limited
companies, partnership firms and proprietary concerns.

A new corporation at the National level known
as the National Small Industries Corporation (NSIC)
was established to extend support exclusively to small

5. IRCI, Annual Report, 30th June, 1949, p.1
7. IDBI, Development Banking in India, Bombay, 1948, p.6.
industries. For the encouragement of industrial development in the private sector, a substantial provision for underwriting facilities was necessary. In order to fill this gap, the institution, called the Industrial Credit and Investment Corporation (ICICI) was set up in January 1955, as a joint stock company with support from the Government of India, the World Bank, the Commonwealth Development Finance Corporation and the other foreign institutions.

Refinance Corporation for Industry Limited (RCIL) came into being in 1958 with financial assistance from the RBI, Life Insurance Corporation (LIC) and commercial banks for providing refinance to commercial banks and to the SFCs against term-loans granted by them to industrial concerns in the private sector. The IDBI came into existence in July 1964. It was a subsidiary wholly owned by the RBI and is under its direct control and management. It acts as an apex institution for co-ordinating the functions of all the potential projects of economic importance. In February 1976, the IDBI was restructured and delinked from the RBI under the IDBI Act 1964. The RCIL was merged with the IDBI after the latter's establishment.

8. IDBI, Development Banking in India, Bombay 1984, p.7.
During the 1960's, different State Governments, in their frantic desire to accelerate the pace of industrial development in their territories, established Industrial Development Corporations. However, from the point of view of legal status, some are setup as Corporations under special status and others as public or private limited companies. The SIDCs in Gujarat, Maharashtra and Goa, Daman and Diu are setup as statutory corporations and the remaining ones are incorporated as companies under the Companies Act. The Andhra Pradesh and Bihar Governments took the lead and setup such institutions in 1960, followed by Uttar Pradesh and Karnataka in 1961, Maharashtra, Gujarat and Orissa in 1962, Madhya Pradesh and Madras in 1965, and Punjab in 1966, the latest one to join this family was Manipur which setup SIDC in 1984. At present there are 26 SIDCs operating in different states with atleast one corporation in every state.

The SIDCs are mainly concerned with providing term finance to the projects of medium size industries. Nine out of 26 SIDCs function as SFCs. Of these nine, six are in North Eastern Region – Arunachal Pradesh, Manipur, Mizoram, Nagaland and Tripura. And the remaining three are one each in Sikkim, Pondicherry, and Goa, Daman & Diu. The SIDCs are financial institutions under section 9(1)(a) of the IDBI Act 1964.

STATE AND STATE INDUSTRIAL DEVELOPMENT CORPORATIONS

The operations of State Industrial Development Corporations, for promotion and development of industries in the States has been largely emphasised since the time it has been sponsored. The Indian Constitution which came into force on January 26th 1950 declared the Directive Principles of State Policy as: "the state shall strive to promote the welfare of the people by securing and promoting as effectively as it may, a social order in which Justice - social, economic and political - shall inform all the institutions of the national life. Further, the State shall direct its policy towards securing that the operation of the economic system does not result in the concentration of wealth and
means of production to the common detriment. From the above discussion it could be observed that the role of financial institutions is interlinked with planned economic development of the country. In the words of Sarma, R.K., the financial institutions have made positive contribution to the industrial development of the country. The SIDCs have been playing a significant role in the development of backward regions and stimulating growth of new entrepreneurship, despite some organisational and operational limitations and resources constraints.

Ownership and Management

The common feature of SIDCs is that they are wholly owned by the State Governments. They have been incorporated as limited liability companies under the Indian Companies Act or Autonomous Corporations under the specific States Acts, which gives sufficient measure of flexibility in their operations.

10. IDBI, Development Banking in India, Bombay, 1984, p. 3-4.
Subject to the overall guidance by the State Government, the affairs of the SIDCs are being conducted by a Board of Directors, nominated by the State Government. In some corporations' Board Special Committees such as Technical Committee, Appraisal Committee, Finance Committee, and Purchase Committee, give assistance wherever necessary to advise the Board in conducting and carrying out the business of the corporation. The Managing Director is the Chief executive of the corporation. He looks after the day to day management including disbursement of assistance sanctioned and execution of documents. He is assisted by heads of various departments/divisions such as administration, finance, technical, the number of departments/divisions depending on scale and diversity of operations of the corporation.

Objectives

Referring to the SIDCs as development banks is quite appropriate and common. It implies that the task of the SIDCs goes far beyond the conventional functions of providing term loans to entrepreneurs and mobilizing resources for its lending operations. Thus, SIDCs cannot be an engine of growth but can surely act as
the 'growth inducing agency' in a desirable manner. In other words, it can make the task of the entrepreneur easier by providing finance in time and also by providing information on marketing and other related services. Emphasis on a new sense of welfare as well as social responsibility of business—which are the avowed socio-economic objectives of the government—are some of the other important objectives of these corporations.

To achieve the desired goal within the preamble, the SIDCs have some specific objectives. They are:

i to promote industrial growth

ii to generate additional employment opportunities

iii to achieve balanced regional development

iv to facilitate the entrepreneurs with regard to marketing

v to improve the quality context of aggregate investment, and

vi to associate themselves in the promotion programmes.
Functions

The functions of the SIDCs primarily concern the entrepreneurs of the states, so as to enable them to take the lead in ushering industrialisation in the desired pattern. Promotion is the primary function and finance is the secondary function of the SIDCs. In the case of the SPCs financing is the primary function and promotion is the secondary function. While the SIDCs take care of the medium scale sector, the SPCs care for the small scale sector. Though the areas of function of the SIDCs and of the SPCs are different their activities complement each other and ensure the development of all areas with distributive justice. To obtain this, the functions of SIDCs are incidental to and allied with a wide range of activities for industrial development. SIDCs functions are different in different States, though promotion of small-scale industries is the common area of operations. These corporations play an effective role in promoting a dispersed yet viable industrial growth, especially in comparatively under-developed areas. Enumerated below are the functions of the SIDCs.

a. identification of industrial potential projects by conducting surveys

b. preparation of feasibility reports

c. providing long term financial assistance including technical/know-how, etc., to entrepreneurs

d. securing escort services such as DGTT registration, licence, capital goods clearance, water, power, drainage, land or plant in an industrial estate etc., to compliance in availing various formalities.

e. provision of risk capital by way of equity participation seed capital etc.,

f. provision of term loans and guarantees for deferred payments. And provision of lease finance by certain corporations.

g. Merchant Banking Services like underwriting and managing public issue of shares, bonds and debentures.

h. Development of industrial areas/estates promotion of projects, public, joint or assisted sectors operation of investment incentives, schemes of central/state Governments and carrying out other agency functions.

i. sponsoring and organising Entrepreneur Development programmes.
j. Underwriting such other promotional activities in furtherance of State Industrial Development objectives, and

k. acting as an agent of the Central/State Government in respect of grant of subsidies, incentives etc., as also of Industrial Development Bank of India for provision of seed capital assistance.

Depending primarily on the degree of industrialisation and the institutional network existing in the State, the SIDCs concentrate on one or more of the above functions. Some States have set up SIDCs exclusively to promote and manage State Government owned business enterprises, while some have exclusively to provide infrastructural facilities particularly in less developed regions of the state. In States like Andhra Pradesh, Kerala and Punjab, the SIDCs, apart from extending financial assistance to industrial units, undertake primary entrepreneurial functions of initiating arrangements, for promotion of new industries such as securing industrial licences for projects in their own names, preparation of preliminary feasibility studies, negotiation of collaboration and other arrangements. SIDCs in Orissa, Bihar and Tamil Nadu promote and manage industrial projects. In Jammu and Kashmir,
Himachal Pradesh and Manipur the SIDCs distribute raw materials to industry,\textsuperscript{14} and Mizoram Small Industries Corporation is providing infrastructural facilities in the state.

Salient Features

The following are the salient features of the SIDCs.

i. In consonance with the Industrial policy, the role of the SIDCs is considered as a promotional instrument of the State Government to develop new entrepreneurs in medium sector and to make efforts for industrialisation specially in backward areas in joint sectors. The SIDCs can disinvest their holdings up to 26 per cent after the project goes on stream.

ii. More and continuous emphasis on assistance to the units in less developed regions.

iii. In the loan component of the project which costs up to Rs.3 crores, the share of SIDCs is more than 45 per cent.

\textsuperscript{14} Ruikarni, P.V., op. cit., p.1117.
iv The financial assistance comprises of both equity and term loans.

v For quick implementation of the projects and facilitating quick administration of the entire gamut of services, the single window clearance is being operated under the auspices of the SIDCs.

vi The SIDCs functions are in close co-ordination with the other financial institutions.

vii SIDCs as financial institutions are eligible for refinance from IDBI.

viii Through Investment Guidance Cell the SIDCs identify small and medium entrepreneurs at district level and give them active guidance.

State Industrial Development Corporations and Co-ordination

The effective functioning of institutions for fruitful results hinges on co-ordination. This coordination among the institutions is, in fact, quite necessary for economic development in the long term. In other words, an effective organisational framework, with appropriate inter-institutional linkages and system depends on the desire for effective coordination among institutions.
The finance Minister at the time of introducing the Bill of Industrial Development Bank of India emphatically said that "Where a long term view is necessary and a certain amount of risk has to be taken, the existing institutions tend by reason of their statutory obligations and traditions to be conservative and cannot in any case be helpful". 15 There are quite some instances where due to sheer lack of coordination and even unwillingness to cooperate, valuable time is lost in making futile efforts to come to mutual understanding, projects get defunct, parties take full advantage of lack of coordination, ordinary issues get transformed into prestige issues and ultimately all concerned, including the borrower and the nation, lose. 16 Hence, coordination among the financial institutions is necessary for the growth of Indian Industrial Economy. The Chief general manager of the State Bank of India (Orissa Circle), Mr. Solomon Raj,S., says that there is an urgent need to institute a system of coordination between banks and financial and promotional institutions besides promoters to decide

15. Extract from the speech of Finance Minister while introducing the IDBI Bill in Loksabha on April 30,1964, quoted from Commerce Annual Number 1974, p.149
on strategies to meet cash losses of industries so that the working capital crunch arising through diversion of short term funds is minimised. The present structure of SIDCs in India provides for integrated financing arrangements with all Indian financial institutions like IDBI and IFCI to cater to the credit needs of medium enterprises. Under refinancing and rediscounting facility IDBI provides resources in support to SIDCs. And it also subscribes the shares and debentures. The Central and State Governments administer their incentive schemes through the SIDCs.

Development Finance Policy

Finance in industrial concerns is essentially for their development through means of investment. Hence, institutional finance is called 'Development Finance'. For the development of backward areas, modernisation and rehabilitation of industry, a number of initiatives were needed under the policy of Development Finance. Since many sectors of the industrial economy are at

a stage where increased competition can lead to enhanced productivity, quality and growth and reduce costs as well as provide a basis for faster industrial growth, there was a need for imminent design of a policy framework to achieve these ends. To refer to this, a comprehensive scheme was introduced in 1983. This scheme aims at ensuring concessional assistance for setting up industries in backward areas. The scale of incentive is to be provided in accordance with the new classification of backward areas into three categories viz., A, B and C. The incentive is in the form of larger amounts of loans and underwriting assistance on concessional terms, lower promoters' contribution and exemption from conversion, option and commitment charge.

For the development of project's specific infrastructure, the project, in 'no industry districts' is now eligible for interest free loans upto 20 per cent of the project cost during the construction period.

Likewise, for the development of area specific infrastructure in 'no industry districts', term loan assistance upto Rs.5 crore per 'no industry district' is available from 10 per cent to 12.5 per cent are charged on assistance to projects that are coming up in 'no industry districts' and other backward areas.  

Development of Capital Market

To strengthen the capital market, the free flow of finance to industries for their development is needed. The structure of capital market has always been determined by effective participation of the institutions like SIDCs, SFCs, ICICI, and IDBI. During the year 1982-83, the all India institutions also introduced a scheme to ease the difficulty in raising equity from the market for projects promoted by less known entrepreneurs. This scheme of granting bridging loans against public issues of equity shares is intended to enable companies promoted by such entrepreneurs to go in for public issues at a stage nearer to the completion of the projects when a better response from investors could be expected.


At a meeting of the Presidents of six stock exchanges in Calcutta, Mr. Mahendra N. Kampani, and Mr. M.R. Mayya, the President and the executive Director of the Bombay stock exchange respectively, said that with the growth of the capital market, the size of which is poised to treble by the turn of the century, there was an urgent need to induct members with larger financial resources at their disposal. If financial institutions become members of all stock exchanges, it was felt that the habit of investment in industrial securities would spread to the semi-urban and rural areas through the network of financial institutions branches. The SIDCs, as their due share of responsibility in making 'capital market' operations a more successful one, have been extending support in the form of underwriting assistance as well as direct subscription to shares, bonds and debentures of industrial concerns, and guidance as well.

The SIDCs have provided Rs. 6363 crores as on 1986. This figure went up from Rs. 512 crores in 1981, which accounts for a 12 times rise during a span of six years, registering 22.90 per cent annual compound growth rate. Whereas all financial institutions disbursed Rs. 23360 crores as on 1986, which went up from Rs. 19220 crores in 1981, registering 3.67 annual compound growth rate. The SIDCs provided 26.67 per cent disbursement of all financial institutions in India.